European Commission

Public Sector Accounting Reform Stocktaking and Challenges Ahead Lisbon — 28 April 2017

EPSAS: Current State of Play and Challenges ahead

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Context

General Purpose Financial Statements should provide a true and fair view of the financial position and performance of reporting entities for accountability and decision making purposes, whether they are private or public sector.

But, no common financial accounting standards for the public sector - contrast to the private sector.

No common underlying set of public sector accounting standards - risks for the transparency and comparability of entity-level financial accounting data.

Why is public sector accounting of public interest?

- The accounts of the public sector are of public interest as public finance is ultimately concerned with the use of sovereign power for raising and spending citizen's money.
- Full disclosure of the financial position and performance of public sector entities, on a comparable basis, is in the public interest.
- Public sector specificities require public sector specific accounting approaches.

Drivers and challenges

Drivers

- Public Financial Management Reforms
- Debt & Asset Management
- Intergenerational fairness
- Transparency
- International comparability
- Assurance
- …

Challenges

- National traditions
- Complexity
- Cost, skills and expertise
- Reform fatigue
- Lack of political support
- Lack of national consensus
- …

What do EPSAS bring to policy makers?

- Provide comprehensive and consistent view of income, expenses, assets and liabilities of public sector entities for better management of public finances
- Increase credibility of governments and public entities and support their oversight and access to capital markets
- Support fiscal stability and sustainability (e.g. inter-generational fairness)
- Show the full picture of burden on tax payers against value and service potential created by policies.

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Would not EPSAS constrain investment?

- PPPs under EPSAS would generally be reported on government balance sheet.
- The investment asset is recorded alongside with the liability providing the net impact of investment on the financial position of the reporting entity.
- EPSAS provide a longer term perspective as the impact on deficit is spread over the lifetime of the asset, supporting a sustainable investment policy.
- EPSAS will give a different but complementary view of the impact of investment from EDP.
- EPSAS primarily serves financial management and audit purposes.

Flexible, stepwise approach in two phases

Phase 1

- Increasing fiscal transparency in the short to medium term by promoting accruals accounting, e.g. IPSAS, in the period from 2016 to 2020:
  - Technical guidance on first time implementation of accruals
  - Financial support to investments in the modernisation of public sector accounting systems
  - . . .

Flexible, stepwise approach in two phases

Phase 1 (. . .)

- Developing a conceptual framework and standards:
  - Governance principles and due process
  - Accounting principles and standards
  - Technical work on standards with focus on public sector specificities
  - . . .

Focus on public sector specificities

Eurostat commissioned **10 issues papers** on key public sector accounting topics in 2016:

• Small and less risky entities	• Social benefits
• Options in IPSAS	• Infrastructure assets
• Taxes	• Segment reporting
• Heritage	• Military assets
• Employee benefits *(pensions)*	• Social contributions

10 more issues papers are being commissioned in 2017

Flexible, stepwise approach in two phases

Phase 1 (. . .)

- . . .
- Review and Impact Assessment
  - EPSAS costs and benefits
  - impact of EPSAS on EU policies:
    - ✓CMU
    - ✓ investment, jobs and growth
    - ✓ democratic accountability and scrutiny

Phase 2

- Stepwise implementation of EPSAS e.g. by 2025

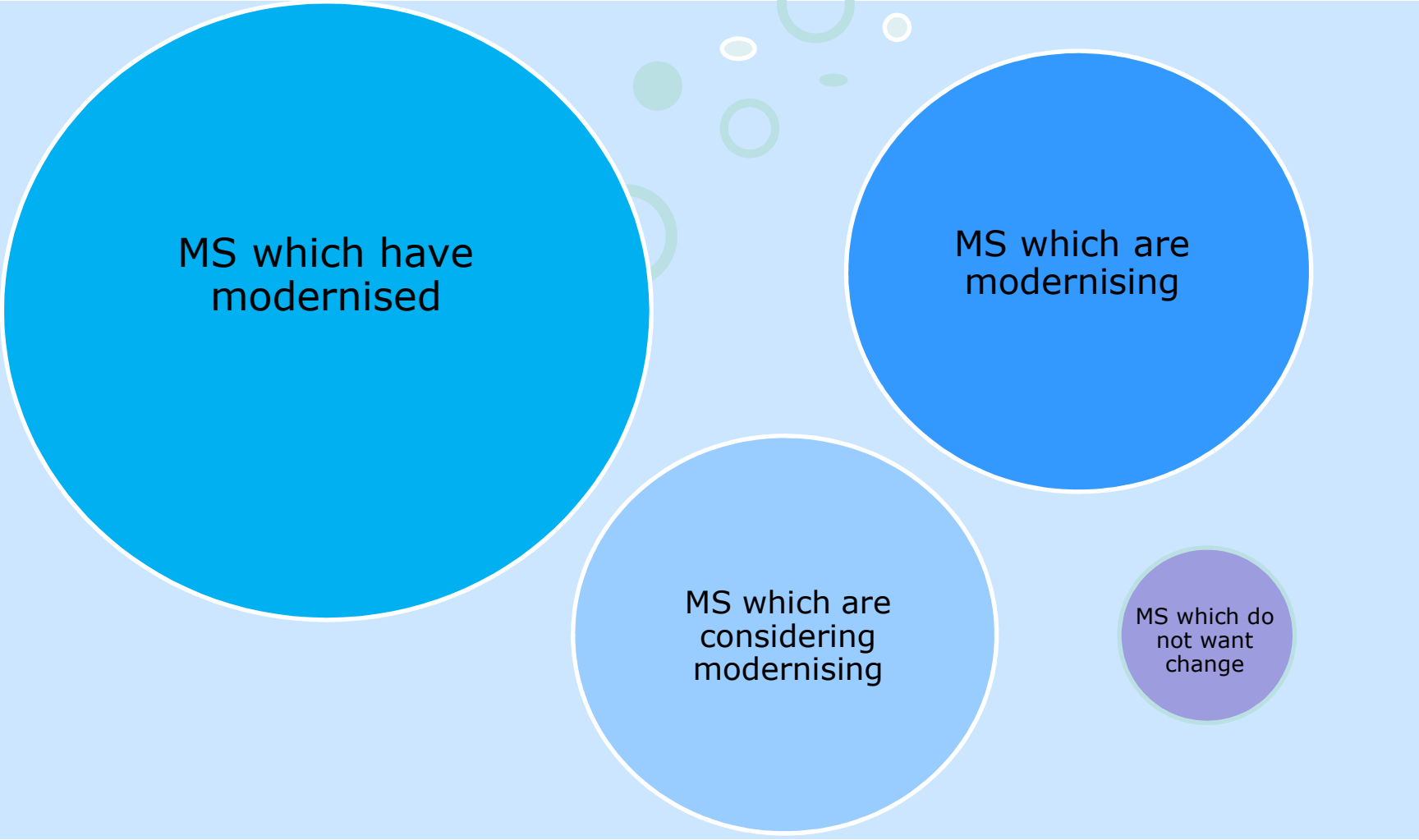
Why do we need EPSAS after Phase 1?

- Unilateral modernisation efforts of MSs have not led to fiscal transparency and comparability within and between MSs.
- Reforms in MSs are assumed to continue in the general direction of IPSAS, which would improve financial transparency but not comparability.
- High level accounting principles alone cannot deliver EU-wide comparability either.
- In 2020 Commission will make a new assessment and the eventual proposal will take in consideration the result of the impact assessment.

Work in progress — building on 2016 work

- Continue supporting the modernisation of public accounting systems on an accruals basis in the Member States
- Continue developing the elements of the EPSAS framework and the preparations for future EPSAS standards
- Commission a further set of EPSAS issues papers
- Collect more information for impact considerations
- Continue communicating with stakeholders

NB: Eurostat will host in Luxembourg IPSASB in June 2017.


MS which have modernised
MS which are modernising
MS which are considering modernising
MS which do not want change

A view of the accruals reform in Portugal – benefits

- Single accounting framework for all the levels of government
- Single harmonized chart of accounts
- Making financial accounting the primary source for national accounts and government finance statistics
- Enabling alignment between budget, financial and statistical reporting
- Putting 'cash' into the right context

A view of the accruals reform in Portugal – benefits

- (Monthly) consolidated WoG f/s to fill the information gaps of today,
- by acknowledging the fact that the state taken as whole makes up an economic entity with a financial position and performance,
- in order to enable better management of public finances, better accountability, and increased credibility through
- the systematic recognition and measurement based on internationally accepted public sector accounting standards.

A view of the accruals reform in Portugal – benefits

- The view that financial management it is not just about expenditure, debt and deficit, but also about
  - ✓ revenue, cost and expense
  - ✓ amortisation and depreciation
  - ✓ generation of income
  - ✓ the creation of value and assets
  - ✓ and net worth
- The view of better financial management of assets and liabilities through recognition and measurement on the basis of financial accounting standards

A view of the accruals reform in Portugal – lessons

- Political commitment, i.e. the conviction that
  - ✓ it is worth to assume the cost of the reform (resources)
  - ✓ in order to earn its benefits
- Determination and perseverance, and
- A fully dedicated, empowered and knowledgeable reform team

. . . are **key** to the success.

European Commission (Eurostat) Task Force EPSAS:

http://ec.europa.eu/eurostat/web/government-finance-statistics/government-accounting